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The Autumn Statement

The Brexit budget

Philip Hammond delivered a small-bore budget for a post-referendum Britain

THIS year's Autumn Statement, the first big event on the fiscal calendar since the EU referendum in June, was always going to be a strange exercise. Britain is in a state of unprecedented uncertainty. The government is unclear about what sort of Brexit it wants. Economic forecasting is, as a result, as good as guesswork. The outlook for the public finances is similarly uncertain. Still, as he rose to deliver his statement in the House of Commons on November 23rd, Philip Hammond, the newish chancellor, had to achieve two big objectives.

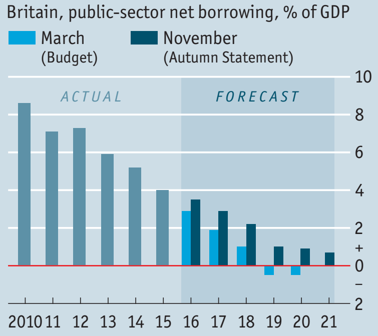
First, he had to show willingness to help the economy were it to be blown off course by Brexit, all the while keeping the public finances on an even keel. Second, he had to live up to the rhetoric of Theresa May, the prime minister, who has repeatedly promised to help so-called "just-about-managing" families (JAMS), a vaguely defined bunch of 6m or so working-age households on low-to-medium incomes.

Mr Hammond's task is made harder by Brexit. The Office for Budget Responsibility (OBR), the fiscal watchdog, thinks that by 2020 the economy will have grown by 2.4 percentage points less than it predicted before the referendum. As a consequence, over the next five years the government is expected to borrow £122bn ($152bn) more. But the OBR did not model what Brexit could actually look like. And the risks to the economy—leaving the EU's single market, say—are clearly to the downside, as the OBR's documentation appears to show.

With this in mind, Mr Hammond chose to keep things simple. The Autumn Statement contained just 18 new tax measures, roughly half the number that his meddlesome predecessor, George Osborne, was accustomed to making. The unflashy Mr Hammond kept the gimmickry to a minimum, relenting only to bung £7.6m towards the restoration of a stately home that he said had inspired the country estate of Pemberley in "Pride and Prejudice" (the small community of people who follow both Jane Austen and British fiscal policy immediately pointed out that Chatsworth House, 30 miles south, has a better claim).

Knocked off course

Britain, public-sector net borrowing, % of GDP



Source: OBR

Mr Hammond's main objective, though, is to be able to respond to whatever Brexit throws at him. Out went Mr Osborne's ambitious target to reach a budget surplus by 2019-20 (see chart). Mr Hammond committed himself to three fiscal rules, but they are hardly savage. A cap on overall welfare spending will not come into force until 2021, when the worst of the Brexit-related uncertainty is over. He wants public-sector debt, relative to GDP, to be falling from 2020.

His third rule is to reduce overall government borrowing, adjusted for the economic cycle, to below 2% of GDP by 2020-21. In effect this allows Mr Hammond to borrow more to cover higher welfare spending and lower tax receipts, which would result if the economy slows. The OBR reckons that by this measure, the deficit will be 0.8% of GDP in 2020.

This approach thus gives him some fiscal room to offset a Brexit-related slowdown. Mr Hammond has put an extra £23bn towards infrastructure, including projects such as new railway signalling and upgraded "digital infrastructure", including internet connections. In 2019-20 public-sector net investment, as a percentage of GDP, will be 0.4 points higher than was planned in March. This may not make much difference, however. The OBR, indeed, has revised down its expectations for productivity growth.

And despite the extra money for infrastructure, overall the government's spending plans will drag on growth in the coming years. Under Mr Osborne, policy called for a reduction in the budget deficit, adjusted for the economic cycle, of 0.8% of GDP in 2017-18. That is big by historical standards, and would be a tight squeeze even on a strong economy. Yet Mr Hammond did not loosen it. In 2019-20 an adjustment ▸▸